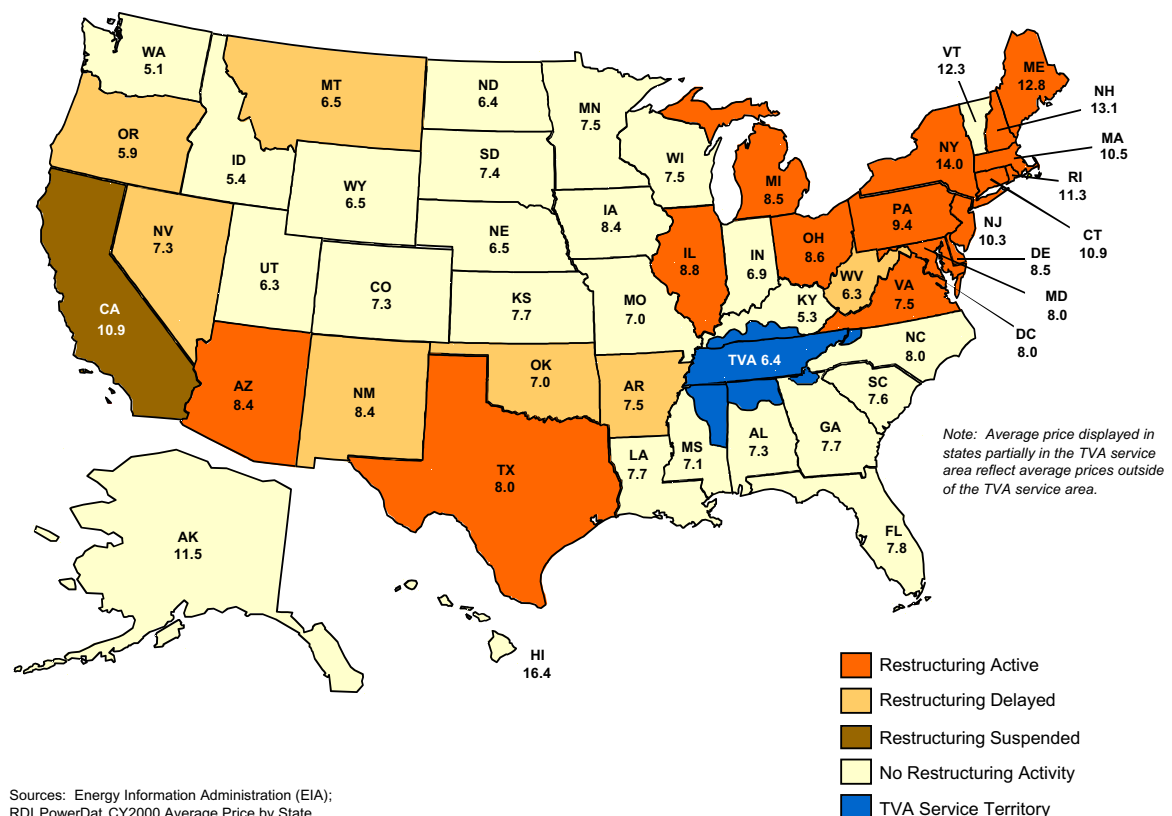


Restructuring Highlights

The desired outcomes of restructuring are customer choice and lower power prices for consumers. TVA supports equitable competition. However, as some of the first trials of restructuring have demonstrated, the process to bring about competition must be well-planned and carefully implemented.

TVA, as a federal corporation, plays a unique role in restructuring because of its broad mission of stewardship and public service. Public power entities like TVA and the distributors of TVA power are ideally suited to be advocates for and to protect the fundamental public interest.

**Restructuring Activity as of February 2002
& 2000 Average Residential Prices**



Sources: Energy Information Administration (EIA);
RDI PowerDat CY2000 Average Price by State

The Tennessee Valley Authority's Position on Restructuring

TVA is fully engaged in the national debate over restructuring the electric industry and has demonstrated that it can set a standard for public service that will help ensure that restructuring does, in the end, serve the public good. TVA supports competition as long as it is fair to both private and public power, fair to all regions of the country, and fosters all utilities' responsibilities to customers for reliability, equitable universal access, environmental stewardship, and economic development.

There are regulatory and statutory issues that affect the Tennessee Valley region that are not applicable to investor-owned utilities. Because of this, TVA has been involved in extensive discussions with distributors of TVA power, the industries directly served by TVA, and the Tennessee Valley Congressional Caucus in an effort to reach consensus on the appropriate role for TVA in a restructured, competitive environment. The regional consensus approach included in the Consensus TVA Title reflects compromise from stakeholders throughout the Valley, and represents a common-sense approach to addressing, in a comprehensive manner, the unique setting of TVA in the electricity marketplace. The theme throughout the Consensus TVA Title affirms TVA's original mission and its responsibility for providing a reliable, affordable power supply and transmission system.

Distributors of TVA power, TVA's directly-served customers, and members of the Tennessee Valley Congressional Caucus believe that the unified regional position reflected in the Consensus TVA Title will provide fair treatment for the people of the Tennessee Valley in national electricity restructuring legislation.

It appears unlikely that a comprehensive electric power industry restructuring bill will be passed by the 107th Congress. The only such bill with any material chance of seeing congressional action this year is H.R. 3406. In defining what TVA's role would be in a future restructured electric power marketplace, H.R. 3406 incorporates verbatim the Consensus TVA Title.

Highlights of the Consensus TVA Title

Anti-Cherrypicking Amendment and the TVA “Fence”

- Simultaneously repeals both the Anti-Cherrypicking Amendment, which has limited wholesale competition within the TVA service area, and the “Fence,” which has limited TVA’s wholesale sales outside the TVA service area.

Renegotiation of Existing TVA-Distributor Power Supply Contracts

- After enactment, distributors will be able to choose to terminate power supply contracts upon three-years’ notice.
- After enactment, distributors can acquire up to ten percent of their power requirements from other sources with two-years’ notice, or more than ten percent with three-years’ notice.
- TVA’s stranded cost recovery would be determined in accordance with the same rules that FERC applies to other electric utilities.

TVA Retail Sales

- TVA will continue to serve its existing retail loads.
- TVA can sell excess wholesale power outside its current service area.
- TVA can serve new retail loads only in the Valley and after retail open access is allowed in the distributor’s area in which the new retail load is located.

Regulation of TVA’s Transmission System

- TVA’s transmission rates, terms and conditions will be subject to FERC regulation in the same manner as all other transmission owners/operators.

TVA supports equitable competition and is working to prepare for competition. TVA has outlined six strategic objectives to do this. TVA’s six strategic objectives are to:

- *Meet customers’ needs by providing reliable, affordable electric power*
- *Continue the trend of debt reduction*
- *Reduce the delivered cost of power relative to the market*
- *Enhance the quality of life in the Tennessee Valley through environmental stewardship and balanced, integrated management of the Tennessee River System*
- *Demonstrate leadership in supporting sustainable economic development throughout the Tennessee Valley*
- *Strengthen TVA’s working relationships with Valley residents, communities, and businesses; with customers and suppliers; and with leaders at all levels of government.*

